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STATE FOR WHA/BSC, INL, EEB/IFD/ODF
DEPARTMENT ALSO FOR DS/IP/WHA, DS/IP/ITA, DS/T/ATA
STATE PASS USTR FOR KATE DUCKWORTH
STATE PASS EXIMBANK, OPIC, AND TDA
NSC FOR TOMASULO
TREASURY FOR OASIA - DAS O'NEILL AND JHOEK
DHS FOR PLCY/OIA DONNA MONTIEL
USDOC FOR 4332/ITA/MAC/WH/OLAC
USDOC ALSO FOR 3134/USFCS/OIO
DOL FOR ILAB
SOUTHCOM ALSO FOR POLAD
USAID FOR LAC/AA

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TAGS: PGOV SNAR EINV EFIN BEXP ASEC KJUS EAIR BR
SUBJECT: BRAZIL: INFRASTRUCTURE COOPERATION AND SECURITY ISSUES:
AMBASSADOR SAO PAULO GOVERNOR, AND DAS O'NEILL

REF: (A) 07 SAO PAULO 447 (B) 05 SAO PAULO 1181

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SUMMARY

¶ 1. (SBU) Ambassador met January 28 with Sao Paulo Governor Jose Serra to follow up on previous discussions of cooperation between the state government and the USG on law enforcement and public security issues. He also conveyed USG's interest in supporting Brazil's efforts to develop its physical infrastructure. Governor Serra was pleased to learn that under the new USG-GoB Letter of Agreement (LOA) on counter-narcotics and cooperation, USG may provide training, expertise, and other assistance directly to the state government with prior notification of the GoB. With respect to infrastructure, the Governor outlined several major undertakings, such as the "Rodoanel" (ring road around the metropolitan area), which could benefit from TDA feasibility studies or other U.S.-sponsored technical expertise, and suggested that post follow up on the specifics with Planning Secretary Vidal Luna. Governor Serra, a likely 2010 presidential candidate and currently considered the front-runner, is looking to establish a solid record of achievement in developing the state's economy and improving its quality of life as a means of bolstering his expected candidacy.
End Summary.

¶2. (U) Ambassador was accompanied by Treasury DAS for the Western Hemisphere Brian O'Neill, Consul General (CG), LEGAT, and Financial Attaché. In addition to State Secretary for Economy and Planning Francisco Vidal Luna, Governor Serra was accompanied by State Secretary for Public Security Ronaldo Bretas Marzagao and foreign

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affairs advisors Helena Gasparian and Jose Roberto de Andrade.

LAW ENFORCEMENT COOPERATION

¶3. (SBU) Ambassador began by reminding the Governor of the May 2007 meeting with then-INL A/S Anne Patterson (ref A), which featured discussions of the state government's need for law enforcement-related training and technical assistance. As one result of A/S Patterson's visit, he noted, Embassy has two new positions in its Narcotics Affairs Section (NAS), a Resident Legal Advisor (RLA) and a Law Enforcement Advisor (LEA). In addition, the GoB has indicated that it will sign a bilateral Letter of Agreement (LOA) during the week of February 11. The combination of new personnel and a new framework, the Ambassador said, will make it possible for the USG to move forward to address some of Sao Paulo's needs.

¶4. (SBU) Elaborating on the Ambassador's overview, LEGAT explained that the RLA will focus on training for prosecutors and judges, while the LEA will assist in coordinating post's counter-narcotics efforts. When appropriate, the RLA and LEA will be able to help match requests for specific types of assistance with the USG agency best equipped to provide it, whether DOJ, FBI, DHS, DEA, State, or some other entity. Signing of the LOA will free up funding for post

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to provide some technical assistance to state entities that support our mutual objectives.

¶5. (SBU) Serra asked whether the LOA requires prior federal authorization for the U.S. to provide assistance to the state and was pleased to learn that the state government may ask Embassy directly for training or assistance, and the Embassy need only notify, not seek authorization from, the GoB. (Note: Under the LOA, USG would coordinate with the National Public Safety Secretariat (SENASA) in addition to working with the states. End Note.) He noted that the state prison system is "very problematic" and cited the need for technical expertise in prison administration. He and State Secretary Marzagao also expressed interest in improving police intelligence methods and wiretapping capabilities. Finally, the Governor urged that we not neglect the fight against IPR piracy, noting that during his brief stint (2005-06) as Mayor of Sao Paulo, his administration had taken a hard line against stores selling pirated goods (ref B), and that IPR enforcement is one area where he and the USG are in total agreement. Ambassador and Serra agreed that Embassy and Sao Paulo state security personnel would pursue working-level discussions to work out details of training and technical assistance.

INFRASTRUCTURE DEVELOPMENT

¶6. (SBU) Turning to a new topic, Ambassador recalled that at the March 2007 Camp David meeting between Presidents Bush and Lula, the latter had expressed interest in tapping into U.S. expertise to help Brazil pursue regional integration and to develop its infrastructure. Brazil needs in particular to improve its transportation - roads, railroads, ports, pipelines - and energy infrastructure. Ambassador noted that OPIC provides loan guarantees and insurance, EXIM offers financing for projects with the potential to increase U.S. exports, and TDA conducts feasibility studies and project analysis. The U.S., he said, wants to help stimulate U.S. investors' involvement in Brazil's infrastructure projects. He introduced Treasury DAS Brian O'Neill, who was scheduled to meet in Brasilia with Minister of Planning Paulo Bernardo and National

Economic and Social Development Bank (BNDES) President Luciano Coutinho. O'Neill noted that in working with the GoB, Treasury has found that often the problem is not in financing, but rather in identifying the best projects and making them viable.

¶7. (SBU) Governor Serra said that for the state government, the main bottleneck is actually doing the project. The "Rodoanel" - a ring road around the Sao Paulo metropolitan area designed to facilitate movement of cargo and to alleviate urban traffic - is a prime example. The stretch of highway west of the city has been built and is in use, and construction has begun on the southern tranche. Serra would like to get started on the eastern side as well, but a variety of environmental issues have stalled the process. The state government wants to put together a package that would make the private concessionaire responsible for all elements of the project. Foreign affairs advisor Gasparian noted that TDA has experience working in Sao Paulo state, citing its funding of technical assistance to enable the City of Sao Paulo to improve its network of urban infrastructure (gas, oil, water, sewage,

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telecommunications networks). O'Neill noted that U.S. technical experts engage directly with project developers, and that the only prerequisite is that the project have the potential for U.S. involvement. While there is some skepticism in the investor community about Brazilian federal government projects and public-private partnerships, he said, most state government-sponsored projects appear more realistic and sound.

¶8. (SBU) Ambassador noted that he is arranging a dinner in Brasilia for several Ministers to meet with the heads of U.S. investment banks, and that he could if desired arrange a similar encounter for Governor Serra and some of his key advisors. Serra expressed interest. He joked about how his attitude towards the United States had evolved over the years. In his youth, when Serra was President of the National Students' Union (UNE), he and all his friends considered USAID "deadly." Also, at a 1963 dinner hosted by then-President Joao Goulart, Serra recalled, he urged the President to expel U.S. Ambassador Lincoln Gordon from Brazil. But those were different times, he said. (Biographic Note: Student radical Serra went into exile after the 1964 coup, first to Chile, where he met his wife, and subsequently to the United States, where he earned a PhD in Economics at Cornell and taught for two years at Princeton's Institute for Advanced Studies. End Biographic Note.)

¶9. (SBU) Another project where the U.S. might be helpful is the proposed "bullet train" between Rio de Janeiro and Sao Paulo. Serra noted that, speaking as an economist, he did not believe a European-style high-speed or bullet train was viable. O'Neill agreed, noting that such a project would require either a capital subsidy or an operating subsidy. According to Serra, some Italian visitors claimed that the private sector could develop and operate such a project, but that he believed their calculations were skewed and that a better alternative might be an express similar to the Washington-New York Amtrak model.

¶10. (SBU) Ambassador and DAS O'Neill suggested that on future visits to Washington to meet with IDB and World Bank officials, Governor Serra meet also with USG agencies that can help with technical project assistance, and that he also designate a POC to discuss areas of common interest in infrastructure development. The Governor suggested that Financial Attaché follow up with Planning Secretary Vidal Luna.

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AIRPORT INFRASTRUCTURE

¶11. (SBU) CG inquired into the Governor's view on the state's aviation capacity, which has been a topic of ongoing public debate since the July crash of TAM 3054 at Sao Paulo's Congonhas airport exposed that airport's severe capacity problem. Serra lamented that the state government is not yet well organized to address the question and that the federal government's public handling of civil

aviation has not been coherent. Contrary to the GoB's position, Serra does not believe that Sao Paulo state needs a new airport, which would require a large amount of expensive infrastructure support. He would prefer to improve access to the international airport at Guarulhos - where a third terminal is being developed - and upgrade Viracopos airport in Campinas. In fact, the state has a

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number of small domestic airports that, if expanded, could help carry the commercial aviation load, he said. The state government will soon send a bill to the Legislative Assembly to create a state company dedicated to airport development. O'Neill suggested that the Governor consider having TDA conduct a pre-feasibility study to help identify options.

¶12. (SBU) Ambassador noted that the International Air Transport Association (IATA) has been engaging with Solange Vieira, the recently installed President of the National Civil Aviation Agency (ANAC), with respect to U.S. airlines' serious concerns with proposed enormous aircraft parking fees at Sao Paulo airports. Given the importance of aviation to Sao Paulo, Ambassador suggested that Serra coordinate with Vieira and Defense Minister Nelson Jobim (since the Brazilian military runs the airport agency, Infraero).

BREAST CANCER AWARENESS

¶13. (U) The Ambassador noted the involvement of the Governor's wife in breast cancer prevention and awareness and the potential linkages between her work and the USG's Partnership for Breast Cancer Awareness and Research of the Americas. Following up on Mrs. Serra's recent meeting with Health and Human Service's Secretary Michael Leavitt, the Ambassador and Governor agreed to further explore areas for joint cooperation within the framework of the partnership.

COMMENT

¶14. (SBU) As Governor of a state of 41 million people which accounts for approximately one third of Brazil's GDP, Serra retains deep interest in expanding capacity. The state is home to South America's largest port at Santos, and developing port infrastructure as well as highways and railroads to transport goods are critical to reducing the "custo Brasil," the cost of doing business that private-sector leaders frequently cite as a major hindrance to the country's global competitiveness. Serra recently called for bids on a 30-year concession to improve and operate some 1500 kilometers of major state highways. He also plans soon to privatize the Sao Paulo Energy Company (CESP), which operates six hydroelectric plants in the state.

¶14. (SBU) Public security is also a key concern of Serra's. While statistics show a continuing decline in violent crime throughout the state, the organized criminal gang First Capital Command (PCC) remains a serious threat, and the Governor has repeatedly highlighted the importance of combating drug and arms trafficking and other forms of contraband. He has been a major USG ally in combating IPR piracy. Like most state Governors, he finds coordinating with the federal government extremely frustrating and therefore relishes the possibility of doing business directly with the USG with minimal federal interference.

¶15. (SBU) As of this writing, most observers consider Serra the front-runner for Brazil's 2010 presidential election, assuming he

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can defeat his principal rival, Minas Gerais Governor Aecio Neves, for his party's nomination. Serra, who ran unsuccessfully against Lula in 2002, knows that in order to retain his advantage, he needs to show a solid record of achievement in governing his home state, both in developing its economy and in improving its quality of life.

End Comment.

¶16. (U) This cable was coordinated with Embassy Brasilia and approved by Ambassador Sobel.

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